

Message Text

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ACTION TRSE-00

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 ISO-00 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 FRB-01 FEA-01

OPIC-03 IO-10 XMB-02 /118 W
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R 090810Z JAN 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 9704

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY KABUL

AMEMBASSY KHARTOUM

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 0188

E.O. 11652: NA

TAGS: EINV, EFIN, EAID, IR

SUBJ: TRIPARTITE INVESTMENT IN LDC'S UTILIZING MIDDLE
EAST OIL FUNDS: IRAN

REF: A) STATE 281356, B) TEHRAN 5681 OF JULY 11, 1974

1. SUMMARY: IRANIAN FOREIGN ASSISTANCE AND INVESTMENT SEEM TO BE
CONTINUING TO TAKE PLACE LARGELY ON AN AD HOC BASIS. NO QUASI-
GOVERNMENT OR PRIVATE ENTITIES HAVE BEEN ESTABLISHED TO CHANNEL
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IRANIAN FUNDS ABROAD. WHILE OFFICIAL IRANIAN LENDING COMMIT-

MENTS, AT MARKET RATES TO DEVELOPED COUNTRIES AND CONCESSIONAL RATES TO DEVELOPING NATIONS, BI-LATERAL AND MULTI-LATERAL, CURRENTLY MAY TOTAL AS MUCH AS \$9 BILLION, THE ORGANIZATION WITHIN THE GOI FOR ADMINISTERING THIS LARGE AND STILL GROWING PROGRAM REMAINS IN THE EMBRYO STATE. THE IRANIANS FEEL THEY CAN USE MOST OF THEIR PETRO-DOLLAR EARNINGS AND DO NOT NEED TO WORRY ABOUT RECYCLING. THERE PROBABLY HAS BEEN LITTLE PRIVATE IRANIAN INVESTMENT ABROAD, AND NOT MUCH PRIVATE CAPITAL SEEMS LIKELY TO BE EXPORTED IN THE NEAR FUTURE. AMERICAN INVESTORS WISHING TO PARTICIPATE WITH IRAN IN OTHER LDC'S SHOULD CONCENTRATE THEIR EFFORTS IN THE RECIPIENT COUNTRIES. END SUMMARY.

2. DURING THE PAST YEAR IN WHICH IRAN HAS MOVED FROM A NET IMPORTER TO A SIGNIFICANT EXPORTER OF CAPITAL, SUCH COORDINATION AS HAS EXISTED OF IRANIAN OVERSEAS LENDING HAS COME FROM THE TEMPORARY DIVISION OF FOREIGN LOANS IN THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE. THE MINISTRY ITSELF WAS NOT CREATED UNTIL AFTER THE APRIL 27, 1974, CABINET RESHUFFLE WHEN MOST ELEMENTS OF THE SEPARATE MINISTRIES OF ECONOMY AND FINANCE WERE COMBINED UNDER MINISTER HUSHANG ANSARY, WHO IS THE SENIOR MOST CABINET MINISTER DEALING WITH THE ECONOMY AND PLAINLY INTENDS TO EXERCISE CONTROL OVER IRAN'S FINANCIAL RELATIONS WITH OTHER COUNTRIES. THE OLD DIVISION OF FOREIGN LOANS AND CREDITS IN THE FORMER FINANCE MINISTRY AND THE CENTER FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT, A SEMI-AUTONOMOUS ORGANIZATION RESPONSIBLE TO THE MINISTER OF ECONOMY, WERE COMBINED AND PLACED UNDER JAMSHID ASHRAFI, UNDER SECRETARY FOR INVESTMENT AFFAIRS. A NEW ORGANIZATION TO BE CALLED THE ORGANIZATION FOR INVESTMENT AND ECONOMIC AND TECHNICAL ASSISTANCE OF IRAN IS TO BE FORMALLY ESTABLISHED. GOI OFFICIALS SAY THE NEW ORGANIZATION WILL BE RESPONSIBLE FOR BOTH OFFICIAL AND PRIVATE LENDING AND INVESTMENT ABROAD AS WELL AS FOREIGN INVESTMENT IN IRAN.

3. ALMOST NINE MONTHS AFTER THE CABINET RESHUFFLE, HOWEVER, NOTHING HAS BEEN DONE TO ESTABLISH FORMALLY THE NEW FOREIGN AID/ INVESTMENT ORGANIZATION. PERIODICALLY EMBOFFS HAVE BEEN TOLD THAT LEGISLATION SOON WILL BE PRESENTED TO THE MAJLIS (PARLIAMENT) FORMALLY SANCTIONING THE NEW SETUP, BUT THE DELAY CONTINUES. IN THE MEANTIME, THE TEMPORARY DIVISION OF FOREIGN LOANS, OVER

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WHICH UNDER SECRETARY ASHRAFI SEEMS TO BE EXERCISING SOMETHING LESS THAN CLOSE SUPERVISION, IS THE ONLY COORDINATING MECHANISM FOR IRANIAN FOREIGN AID AND INVESTMENT. SEVERAL WORKING LEVEL OFFICERS ASSIGNED TO THE DIVISION HAVE BEEN REASONABLY FORTHCOMING IN PROVIDING THE EMBASSY INFORMATION ON IRANIAN FOREIGN AID AND LENDING. AT THE SAME TIME, THEY COMPLAIN BITTERLY OF BEING OVERWORKED AND UNDERSTAFFED AND CRITICIZE MINISTER ANSARY FOR NOT HAVING PLACED HIS CONSIDERABLE POWER AND PRESTIGE

BEHIND SPEEDING UP CREATION OF THE NEW ORGANIZATION.

4. THE FUNCTION OF THE MINISTRY OF ECONOMICS AND FINANCE'S DIVISION OF FOREIGN LOANS SEEMS LARGELY TO BE ONE OF MONITORING AND ADMINISTERING IRAN'S FOREIGN LENDING AND INVESTMENT. DECISIONS ON LOANS TO VARIOUS COUNTRIES

TO THE HIGH ECONOMIC COUNCIL AND IN MOST, IF NOT ALL, CASES TO THE SHAH HIMSELF. MOST OF IRAN'S LENDING TO DEVELOPING COUNTRIES HAS BEEN EITHER IN THE INDIAN OCEAN AREA AND/OR TO OTHER MIDDLE EASTERN COUNTRIES THE EMBASSY IN JULY (REF B) SENT IN A SUMMARY OF IRAN'S FOREIGN LENDING UP TO THAT TIME AND HAS FORWARDED SUBSEQUENT INFORMATION AS AVAILABLE (E.G) TEHRAN 7769, 8983, 9320, 10175, 10656, 10666). IRANIAN OFFICIALS HAVE STATED FRANKLY THAT AID RECIPIENTS ARE PICKED FOR "POLITICAL REASONS."

5. EVEN THE DIVISION OF FOREIGN LOANS DOES NOT HAVE ALL OF THE INFORMATION ON IRANIAN FOREIGN AID AND INVESTMENT. THE MOST OBVIOUS GAP IN THEIR INFORMATION SEEMS TO BE ON CONCESSIONAL OIL EXPORTS TO SOME DEVELOPING COUNTRIES. ACCORDING TO ONE SOURCE IN THE CENTRAL BANK OF IRAN, \$500 MILLION HAS BEEN COMMITTED FOR CONCESSIONAL CRUDE OIL EXPORTS TO INDIA. SOME CRUDE REPORTEDLY ALSO IS BEING SOLD TO SUDAN AND PAKISTAN ON A CONCESSIONAL BASIS, BUT THE AMOUNTS ARE NOT KNOWN. THE \$3.75 PER BARREL CASH PAYMENT TERMS WITH THE REMAINDER TO BE PAID OVER FIVE YEARS REPORTED FOR INDIA (TEHRAN 7704) LIKELY APPLIES TO OTHER COUNTRIES RECEIVING IRANIAN OIL ON CONCESSIONAL TERMS. PRESUMABLY, CONCESSIONAL OIL SALES ALSO ARE APPROVED BY THE SHAH AND DETAILS ARE KNOWN TO THE NATIONAL IRANIAN OIL COMPANY.

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ACTION TRSE-00

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 ISO-00 FEA-01 AEC-05

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PM-03 RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 FRB-01

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R 090810Z JAN 75

FM AMEMBASSY TEHRAN

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INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

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AMEMBASSY NEW DELHI

AMEMBASSY PARIS

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6. WITH THE EXCEPTION OF THE \$10 MILLION GRANT TO AFGHANISTAN AND \$20 MILLION TO UNDP (TEHRAN 8983) FOREIGN ASSISTANCE COMMITMENTS EITHER HAVE BEEN IN THE FORM OF LOANS OR POSSIBLE EQUITY INVESTMENTS, MOSTLY THE FORMER. THE ONLY EQUITY INVESTMENTS THUS FAR AGREED UPON OF WHICH THE EMBASSY IS AWARE, ARE THOSE IN EGYPT (TEHRAN 10175). THE IRANO/INDIAN DEAL FOR EXPLOITATION OF THE KUDREMUKH IRON ORE DEPOSIT IN TEHRAN IS BEING BILLED AS A LOAN RATHER THAN A DIRECT INVESTMENT (NEW DELHI 216). THERE PROBABELY WILL BE MORE EQUITY PARTICIPATION IN FOREIGN FIRMS ALREADY ESTABLISHED SUCH AS THE IRANIAN
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PURCHASE OF A 25 PERCENT SHARE IN FRIED KRUPP HUTTENWERKE A.G., A WEST GERMAN FIRM, BUT THESE SEEM MORE LIKELY TO BE IN INDUSTRIALIZED RATHER THAN DEVELOPING COUNTRIES.

7. THE PLANNED ORGANIZATIONAL STRUCTURE OF THE ORGANIZATION FOR INVESTMENT AND ECONOMIC AND TECHNICAL ASSISTANCE OF IRAN HAS REACHED THE PRIME MINISTER'S DESK, ACCORDING TO A SOURCE IN THE DIVISION OF FOREIGN LOANS. THE GOI SO FAR HAS SHOWN NO INTEREST IN CREATING OTHER INSTITUTIONS FOR CHANNELLING FUNDS TO OTHER COUNTRIES. ITS ONLY MULTI-LATERAL COMMITMENTS HAVE BEEN THROUGH THE IMF AND IBRD (TEHRAN A-170). A CENTRAL BANK SOURCE RECENTLY STATED THAT \$400 MILLION OF THE \$700 MILLION COMMITTED TO THE IMF ALREADY HAS BEEN DRAWN DOWN.

8. AS THE DEPARTMENT IS AWARE, MINISTER OF ECONOMICS AND FINANCE ANSARY INDICATED DURING AN EARLY NOVEMBER CONVERSATION WITH EXPORT-IMPORT BANK CHAIRMAN CASEY THAT THE GOI WOULD BE INTERESTED IN JOINT FINANCING OF PROJECTS IN THIRD COUNTRIES

WHERE THE PROJECTS IN SOME FASHION COULD BE RELATED TO IRAN'S OWN ECONOMIC DEVELOPMENT PRIORITIES (TEHRAN 9407). CHAIRMAN CASEY PROMISED TO SELECT TWO OR THREE PROJECTS FROM EX-IM'S PORTFOLIO FOR GOI CONSIDERATION TO BE FORWARDED THROUGH THE EMBASSY. THESE STILL ARE AWAITED. IN THE CASE OF THE KUDREMUH DEAL WITH INDIA WHERE NO IRANIAN EQUITY IS INVOLVED, THE IRANIANS HAVE MADE IT CLEAR THAT THE RESPONSIBILITY FOR SELECTING A FOREIGN COLLABORATOR LIES WITH THE INDIANS. IF ANY THIRD COUNTRY INVESTMENT IS TO BE INVOLVED IN THE JOINT VENTURES WITH EGYPT, IT IS POSSIBLE THAT THE IRANIANS WILL BE MORE ACTIVELY INTERESTED. AT THIS TIME, HOWEVER, IT SEEMS LIKELY THAT THE CHOICE WILL BE LARGELY LEFT UP TO THE EGYPTIANS. THE IRANIANS ARE WELL AWARE THEY DO NOT HAVE PERSONNEL AVAILABLE TO CLOSELY MONITOR PROJECTS IN OTHER COUNTRIES IN WHICH THEY BECOME INVOLVED.

9. THE IRANIAN PRIVATE SECTOR THUS FAR SEEMS TO BE UNINVOLVED IN INVESTMENT ABROAD. EARLY IN 1974, THE GOI ANNOUNCED A SUBSTANTIAL LIBERALIZATION OF FOREIGN EXCHANGE CONTROL REGULATIONS (TEHRAN 315 AND 403). THE GOI HAS ANNOUNCED ITS INTENTION OF MAKING TEHRAN AN IMPORTANT INTERNATIONAL FINANCIAL CENTER, BUT REGULATIONS TO PERMIT THE RELATIVELY UNFETTERED MOVEMENT OF IRANIAN PRIVATE CAPITAL ABROAD AND MECHANISMS TO FACILITATE

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FINANCIAL TRANSFERS HAVE NOT YET BEEN FORMULATED. FOREIGN EXCHANGE EARNINGS FROM IRANIAN OIL EXPORTS BELONG ENTIRELY TO THE GOVERNMENT. PRIVATE INVESTORS HAVE LEGAL ACCESS ONLY BY PURCHASING FOREIGN EXCHANGE THROUGH THE BANKING SYSTEM WHERE LARGE TRANSACTIONS WILL BE CAREFULLY SCRUTINIZED BY THE CENTRAL BANK. THERE ARE NO STATISTICS AVAILABLE, BUT SOME OFFICIALLY SANCTIONED PRIVATE FOREIGN INVESTMENT PROBABLY HAS OCCURRED. EVEN CONSIDERING THE RELATIVE EASE WITH WHICH ONE CAN SEND SMALL SUMS ABROAD THROUGH THE NON-OFFICIAL MARKET, PRIVATE CAPITAL EXPORTS PROBABLY HAVE NOT TAKEN PLACE IN SIGNIFICANT AMOUNTS. THERE IS NO TRADITION OF INVESTING ABROAD AMONG IRANIAN ENTREPRENEURS. DOMESTIC INVESTMENT CURRENTLY BRINGS HIGH YIELDS MAKING IT MUCH MORE ATTRACTIVE THAN FOREIGN IN MOST CASES, AND IS BEING ENCOURAGED BY THE GOI. AT THE SAME TIME, MONEY IS TIGHT BECAUSE OF CONCERN OVER INFLATION.

10. UNTIL THE IRANIANS ACHIEVE A BETTER ORGANIZATIONAL FRAMEWORK FOR FOREIGN AID AND INVESTMENT, THE BEST CHANCE FOR U.S. INVESTORS TO PARTICIPATE SEEMS TO BE THROUGH MAKING THEIR PITCH IN DEVELOPING COUNTRIES RECEIVING EITHER GOI LOANS OR EQUITY INVESTMENT. THE IRANIANS ARE UNLIKELY TO ENCOURAGE PRIVATE IRANIAN INVESTMENT ABROAD AS LONG AS THEY FEEL EARNINGS FROM OIL EXPORTS CAN LARGELY BE UTILIZED BY INCREASED IMPORTS TO FUEL THEIR AMBITIOUS ECONOMIC DEVELOPMENT AND MILITARY BUILDUP PLANS AND BY EXTENDING LOANS AND MAKING INVESTMENTS IN AREAS AND COUNTRIES

WHERE SUBSTANTIAL POLITICAL AND/OR ECONOMIC BENEFITS SEEM LIKELY
TO ACCRUE TO IRAN. THE OFFICIAL GOI POSITION REMAINS THAT IRAN
CAN USE MOST OF ITS PETRO-DOLLAR EARNINGS AND THAT
THEY WILL NOT CONTRIBUTE SUBSTANTIALLY TO THE RECYCLING PROBLEM.
RECENTLY EMBASSY OFFICERS HAVE BEEN TOLD BY IRANIAN OFFICIALS
THAT IRAN AGAIN WILL BE IMPORTING CAPITAL AFTER ANYWHERE FROM
AN 18 MONTH TO A FOUR YEAR PERIOD. THERE OBVIOUSLY REMAINS
CONSIDERABLE DISAGREEMENT WITHIN THE GOI REGARDING THE COUNTRY'S
ABSORPTIVE CAPACITY AND OVERALL DEVELOPMENT PLANNING, BUT THUS
FAR THE IRANIANS DO NOT SEEM TO BE DOING BADLY IN FINDING
REASONABLE WAYS TO SPEND THEIR NEW FOUND WEALTH.
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